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OPEN MEETING

## MEMORANDUM

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AZ CORP COMMISSION  
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2015 JAN 30 PM 1 32

Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED

FROM: Utilities Division

JAN 30 2015

DATE: January 30, 2015

DOCKETED BY

ORIGINAL

RE: IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA (DOCKET NO. E-01933A-12-0291)

SUBJECT: APPLICATION FOR APPROVAL OF PARTIAL REQUIREMENTS SERVICE TARIFF (RIDER R-13)

**Background**

In Decision No. 73912 (April 16, 2013), the Arizona Corporation Commission ("Commission") approved a settlement agreement in Tucson Electric Power Company's ("TEP" or "Company") general rate case that provided for the establishment of new rates and charges. As part of that Decision, the Commission ordered that TEP "...shall file on or before August 30, 2013,...a Partial Requirements Service Tariff". On August 26, 2013, TEP docketed a request for a two-month extension of time seeking authority to provide the mandated new tariff(s) by October 30, 2013. On August 30, 2013, the Commission Utilities Staff ("Staff") docketed a Memorandum which, among other things, recommended approval of TEP's requested time extension to file the mandated tariffs. The Staff Memorandum also recommended that the due date for the corresponding Staff Report and Recommended Order be extended to March 31, 2014. The Commission approved and ordered the requested time extensions in Decision No. 74163 (October 25, 2013).

On October 30, 2013, TEP submitted an application that requested approval of the tariffs mandated by Decision No. 73912. Included in the application were four proposed Partial Requirements Service ("PRS") tariffs.

On March 27, 2014, Staff filed a motion for Extension of Time, until June 30, 2014, to file its Staff Report and Proposed Order. The Administrative Law Judge ordered that any party objecting to the Staff Motion shall file a Response no later than April 11, 2014. No objections were filed.

On July 30, 2014, the Commission ordered under Decision No. 74601 that the deadline for Staff to file the Staff Report and Recommended Opinion and Order be extended until December 31, 2014.

On January 20, 2015, TEP filed a single revised PRS tariff that supersedes the PRS tariffs submitted by the Company on October 30, 2013.

On January 22, 2015, the Commission ordered under Decision No. 74901 that the deadline for Staff to file the Staff Report and Recommended Opinion and Order be extended until January 30, 2015.

### **Proposed Partial Requirements Service Tariff**

TEP initially proposed a set of four PRS tariffs that were designed to meet the specific needs of Residential (R-13), Small General Service (R-14), Large General Service (R-15), and Large Power Service (R-16) customers. However, after extensive discussions with Staff, TEP elected to withdraw the four initially proposed tariffs and replace them with a single PRS tariff, designated as "Partial Requirements Tariff – Rider R-13". This single PRS tariff is the subject of this Memorandum.

The proposed tariff would be offered to customers with a specific type of on-site generation that provides electricity to meet all, or a portion of, the customer's load. Customers taking service under the proposed PRS tariff would desire standby energy and capacity, maintenance energy, or supplemental energy and capacity, in addition to the regular service normally received from the Company.

The proposed tariff would be offered to customers that operate "Qualified Facilities" ("QFs") as defined in the Public Utilities Regulatory Policies Act of 1978<sup>1</sup> ("PURPA"). A QF as defined under PURPA is either a cogeneration (combined heat and power) plant or a small power production facility whose energy source is biomass, waste, renewable (hydro, wind, or solar), geothermal resources, or any combination thereof, and 75 percent or more of the total energy input must be from these sources. PURPA limits the size of an individual small power production QF to 80 megawatts or less. Generation facilities seeking QF status must file an application with the Federal Energy Regulatory Commission ("FERC").

Under PURPA, utility companies are obligated to purchase any energy and capacity which is made available from a QF.<sup>2</sup> The rate at which TEP would purchase power from a QF under this PRS tariff would be established in a Service Agreement between the Company and the customer, subject to approval by the Commission.

The proposed PRS tariff has been designed as a 'rider' that would function in concert with the customer's underlying, or "Base", rate schedule. Customers wishing to take service under the proposed PRS tariff must meet all service requirements for the customer's Base Rate. The proposed PRS Rider would not be available to Time-of-Use, standby, temporary, or resale customers, and could not be used in conjunction with other Partial Requirements or Interruptible rate schedules. In addition, the proposed PRS tariff would only be available to customers who are not otherwise subscribed to the Company's approved Net Metering tariff.

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<sup>1</sup> See 18 C.F.R., Chapter 1, Part 292, Subpart B "Qualifying Cogeneration and Small Power Production Facilities".

<sup>2</sup> See § 292.303 (a).

Customers that wish to take service under this proposed PRS tariff are required to have a demand meter installed and operating before service will be allowed. Any additional equipment necessary to provide partial requirements service will be installed at the customer's expense.

The capacity of the customer's installed generator(s) must be certified by the Company prior to the receipt of any partial requirements service. The generating unit cannot be sized at more than 125 percent of the customer's connected capacity. Certification of the customer's generator(s) would be performed by the Company at the customer's expense.

Rates for the sales of power by the Company to the QF under this PRS tariff would be as follows:

Supplemental Service (electric energy and capacity regularly supplied by the Company to the QF to augment the QF's self-generation)

- A. Service Charge – The service charge shall be the basic service charge using the otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.
- B. Energy Charge – The energy charge shall be the energy charge (including Base Power, Fuel, and Purchased Power) using the otherwise applicable standard offer tariff.
- C. Demand Charge – The demand charge shall be the demand charge using the otherwise applicable standard offer tariff, or \$7.50 per kW if none is specified in the standard offer tariff, times the maximum measured Supplemental demand in the most recent 24 months used to meet only supplemental power requirements and would not be applied to total requirements.

Standby Service (electric capacity and energy supplied by the Company to the QF to replace energy ordinarily generated by the QF's own generation equipment during an unscheduled outage of the QF)

- A. Service Charge – The service charge shall be the basic service charge using the otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.
- B. Energy Charge – The energy charge shall be the energy charge (including Base Power, Fuel, and Purchased Power) using the otherwise applicable standard offer tariff plus 50 percent.
- C. Demand Charge – The demand charge shall be 1.5 times the applicable standard offer tariff with a minimum of \$11.25 per kW.

Maintenance Service (electric capacity and energy supplied by the Company during scheduled outages of the QF)

- A. Service Charge – The service charge shall be the basic service charge using the otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.
- B. Energy Charge – The energy charge shall be the energy charge (including Base Power, Fuel, and Purchased Power) using the otherwise applicable standard offer tariff.
- C. Demand Charge – The demand charge shall be the demand charge using the otherwise applicable tariff, or \$7.50 per kW if none is specified in the standard offer tariff, times the maximum measured demand.
- D. Maintenance Service – Must be scheduled with and approved by the Company and may only be scheduled during the period October through April.

The proposed PRS tariff states that only one service charge will be applied for each billing period.

#### Staff's Analysis

Customers interested in the proposed PRS Tariff would desire Supplemental, Backup, and Maintenance service from the Company to insure reliability and continuity of operations. TEP has designed the subject tariff to meet the needs of customers with self-generation that meet the FERC requirements to be classified as a QF. Staff notes that four solar photovoltaic power plants located within TEP's service territory have applied for QF status since 2012.

For the demand portion of the charges associated with Supplemental Service, the proposed PRS tariff incorporates a rate design construct known as a "demand ratchet". A demand ratchet is a means of applying a minimum billing to a customer who may potentially have large swings in demand during the year. Typically, demand ratchets are imposed on large industrial customers that often connect to the system at the transmission level. Such customers often require the utility to install costly equipment to serve the particular needs of the large customer. In theory, the demand ratchet helps to stabilize the utilities' revenues and minimize the risk of serving large customers by spreading the cost of service over an entire year. From the system viewpoint, the demand ratchet tends to encourage the industrial customer to increase their annual load factor, which often promotes favorable load characteristics.

In the case of the demand ratchet contained in the proposed PRS tariff, a customer would be billed for its highest Supplemental demand in the most recent 24 months. Staff believes that this arrangement is an appropriate use of the demand ratchet mechanism; however, Staff recommends that the demand ratchet be set on the preceding 11 months instead of 24 months to be consistent with TEP's other rate schedules.

The demand charge for Standby Service would be 1.5 times the applicable standard offer tariff demand charge with a minimum of \$11.25 per kW. For Maintenance Service the demand

THE COMMISSION

January 29, 2015

Page 5

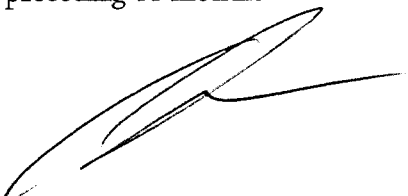
charge would be the demand charge using the otherwise applicable standard offer tariff, or \$7.50 per kW if none is specified in the standard offer tariff, times the maximum measured demand.

Staff notes that TEP's rate for purchasing energy from the QF under this proposed PRS tariff would be defined in a Service Agreement between the Company and the customer, with said Service Agreement subject to approval by the Commission. Staff believes this arrangement is appropriate.

Staff believes that the proposed PRS tariff Rider R-13 meets the requirements of the customer segment that is most likely to be interested in partial requirements service. Staff further believes that the proposed PRS tariff meets the requirements of Decision No. 73912.

Staff's Recommendations

Staff recommends that the proposed PRS tariff Rider R-13, as revised by TEP on January 20, 2015, be approved, except that the Supplemental Service demand ratchet should be based on the preceding 11 months.



Steven M. Olea  
Director  
Utilities Division

SMO:RBL:sms\RRM

ORIGINATOR: Rick Lloyd

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 SUSAN BITTER SMITH

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 DOUG LITTLE

Commissioner

6 TOM FORESE

Commissioner

7  
8 IN THE MATTER OF THE APPLICATION  
9 OF TUCSON ELECTRIC POWER  
10 COMPANY FOR THE ESTABLISHMENT  
11 OF JUST AND REASONABLE RATES AND  
12 CHARGES DESIGNED TO REALIZE A  
13 REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF ITS OPERATIONS  
THROUGHOUT THE STATE OF  
ARIZONA (DOCKET NO. E-01933A-12-  
0291)

DOCKET NO. E-01933A-12-0291

DECISION NO. \_\_\_\_\_

ORDER

14 SUBJECT: APPLICATION FOR APPROVAL OF PARTIAL REQUIREMENTS SERVICE  
15 TARIFF (RIDER R-13)

16 Open Meeting  
17 March 2, 2015, and March 3, 2015  
Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20  
21 1. Tucson Electric Power Company ("TEP" or "Company") is certificated to provide  
22 electric service as a public service corporation in Arizona.

23 **Background**

24 2. In Decision No. 73912 (April 16, 2013), the Arizona Corporation Commission  
25 ("Commission") approved a settlement agreement in Tucson Electric Power Company's ("TEP" or  
26 "Company") general rate case that provided for the establishment of new rates and charges. As part  
27 of that Decision, the Commission ordered that TEP "...shall file on or before August 30, 2013, ...a  
28 Partial Requirements Service Tariff". On August 26, 2013, TEP docketed a request for a two-month

1 extension of time seeking authority to provide the mandated new tariff(s) by October 30, 2013. On  
2 August 30, 2013, the Commission Utilities Staff ("Staff") docketed a Memorandum which, among  
3 other things, recommended approval of TEP's requested time extension to file the mandated tariffs.  
4 The Staff Memorandum also recommended that the due date for the corresponding Staff Report and  
5 Recommended Order be extended to March 31, 2014. The Commission approved and ordered the  
6 requested time extensions in Decision No. 74163 (October 25, 2013).

7 3. On October 30, 2013, TEP submitted an application that requested approval of the  
8 tariffs mandated by Decision No. 73912. Included in the application were four proposed Partial  
9 Requirements Service ("PRS") tariffs.

10 4. On March 27, 2014, Staff filed a motion for Extension of Time, until June 30, 2014, to  
11 file its Staff Report and Proposed Order. The Administrative Law Judge ordered that any party  
12 objecting to the Staff motion shall file a Response no later than April 11, 2014. No objections were  
13 filed.

14 5. On July 30, 2014, the Commission ordered under Decision No. 74601 that the  
15 deadline for Staff to file the Staff Report and Recommended Opinion and Order be extended until  
16 December 31, 2014.

17 6. On January 20, 2015, TEP filed a single revised PRS tariff that supersedes the PRS  
18 tariffs submitted by the Company on October 30, 2013.

19 7. On January 22, 2015, the Commission ordered under Decision No. 74901 that the  
20 deadline for Staff to file the Staff Report and Recommended Opinion and Order be extended until  
21 January 30, 2015.

#### 22 **Proposed Partial Requirements Service Tariff**

23 8. TEP initially proposed a set of four PRS tariffs that were designed to meet the specific  
24 needs of Residential (R-13), Small General Service (R-14), Large General Service (R-15), and Large  
25 Power Service (R-16) customers. However, after extensive discussions with Staff, TEP elected to  
26 withdraw the four initially proposed tariffs and replace them with a single PRS tariff, designated as  
27 "Partial Requirements Tariff – Rider R-13".

28 ...

1           9. The proposed tariff would be offered to customers with a specific type of on-site  
2 generation that provides electricity to meet all, or a portion of, the customer's load. Customers taking  
3 service under the proposed PRS tariff would desire standby energy and capacity, maintenance energy,  
4 or supplemental energy and capacity, in addition to the regular service normally received from the  
5 Company.

6           10. The proposed tariff would be offered to customers that operate "Qualified Facilities"  
7 ("QFs") as defined in the Public Utilities Regulatory Policies Act of 1978 ("PURPA"). A QF as  
8 defined under PURPA is either a cogeneration (combined heat and power) plant or a small power  
9 production facility whose energy source is biomass, waste, renewable (hydro, wind, or solar),  
10 geothermal resources, or any combination thereof, and 75 percent or more of the total energy input  
11 must be from these sources. PURPA limits the size of an individual small power production QF to 80  
12 megawatts or less. Generation facilities seeking QF status must file an application with the Federal  
13 Energy Regulatory Commission ("FERC").

14           11. Under PURPA, utility companies are obligated to purchase any energy and capacity  
15 which is made available from a QF. The rate at which TEP would purchase power from a QF under  
16 this PRS tariff would be established in a Service Agreement between the Company and the customer,  
17 subject to approval by the Commission.

18           12. The proposed PRS tariff has been designed as a 'rider' that would function in concert  
19 with the customer's underlying, or "Base", rate schedule. Customers wishing to take service under  
20 the proposed PRS tariff must meet all service requirements for the customer's Base Rate. The  
21 proposed PRS Rider would not be available to Time-of-Use, standby, temporary, or resale customers,  
22 and could not be used in conjunction with other Partial Requirements or Interruptible rate schedules.  
23 In addition, the proposed PRS tariff would only be available to customers who are not otherwise  
24 subscribed to the Company's approved Net Metering tariff.

25           13. Customers that wish to take service under this proposed PRS tariff are required to  
26 have a demand meter installed and operating before service will be allowed. Any additional equipment  
27 necessary to provide partial requirements service will be installed at the customer's expense.

28 ...



1           14. The capacity of the customer's installed generator(s) must be certified by the Company  
2 prior to the receipt of any partial requirements service. The generating unit cannot be sized at more  
3 than 125 percent of the customer's connected capacity. Certification of the customer's generator(s)  
4 would be performed by the Company at the customer's expense.

5           15. Rates for the sales of power by the Company to the QF under this PRS tariff would be  
6 as follows:

7           Supplemental Service (electric energy and capacity regularly supplied by the Company to  
8 the QF to augment the QF's self-generation)

9           A. Service Charge – The service charge shall be the basic service charge using the  
10 otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.

11           B. Energy Charge – The energy charge shall be the energy charge (including Base Power,  
12 Fuel, and Purchased Power) using the otherwise applicable standard offer tariff.

13           C. Demand Charge – The demand charge shall be the demand charge using the otherwise  
14 applicable standard offer tariff, or \$7.50 per kW if none is specified in the standard offer  
15 tariff, times the maximum measured supplemental demand in the most recent 24 months  
16 used to meet only supplemental power requirements and would not be applied to total  
17 requirements.

18           Standby Service (electric capacity and energy supplied by the Company to the QF to  
19 replace energy ordinarily generated by the QF's own generation equipment during an unscheduled  
20 outage of the QF)

21           A. Service Charge – The service charge shall be the basic service charge using the  
22 otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.

23           B. Energy Charge - The energy charge shall be the energy charge (including Base Power,  
24 Fuel, and Purchased Power) using the otherwise applicable standard offer tariff plus 50  
25 percent.

26           C. Demand Charge – The demand charge shall be 1.5 times the applicable standard offer  
27 tariff with a minimum of \$11.25 per kW.

28 ...

1        Maintenance Service (electric capacity and energy supplied by the Company during  
2 scheduled outages of the QF)

3            A. Service Charge – The service charge shall be the basic service charge using the  
4 otherwise applicable standard offer tariff, but not to be less than \$15.00 per month.

5            B. Energy Charge – The energy charge shall be the energy charge (including Base Power,  
6 Fuel, and Purchased Power) using the otherwise applicable standard offer tariff.

7            C. Demand Charge – The demand charge shall be the demand charge using the otherwise  
8 applicable tariff, or \$7.50 per kW if none is specified in the standard offer tariff, times the  
9 maximum measured demand.

10           D. Maintenance Service – Must be scheduled with and approved by the Company and  
11 may only be scheduled during the period October through April.

12 The proposed PRS tariff states that only one service charge will be applied for each billing period.

13 **Staff's Analysis**

14            16. Customers interested in the proposed PRS Tariff would desire Supplemental, Backup,  
15 and Maintenance service from the Company to insure reliability and continuity of operations. TEP  
16 has designed the subject tariff to meet the needs of customers with self-generation that meet the  
17 FERC requirements to be classified as a QF. Staff notes that four solar photovoltaic power plants  
18 located within TEP's service territory have applied for QF status since 2012.

19            17. For the demand portion of the charges associated with Supplemental Service, the  
20 proposed PRS tariff incorporates a rate design construct known as a "demand ratchet". A demand  
21 ratchet is a means of applying a minimum billing to a customer who may potentially have large swings  
22 in demand during the year. Typically, demand ratchets are imposed on large industrial customers that  
23 often connect to the system at the transmission level. Such customers often require the utility to  
24 install costly equipment to serve the particular needs of the large customer. In theory, the demand  
25 ratchet helps to stabilize the utilities' revenues and minimize the risk of serving large customers by  
26 spreading the cost of service over an entire year. From the system viewpoint, the demand ratchet  
27 tends to encourage the industrial customer to increase their annual load factor, which often promotes  
28 favorable load characteristics.

1           18. In the case of the demand ratchet contained in the proposed PRS tariff, a customer  
2 would be billed for its highest supplemental demand in the most recent 24 months. Staff believes that  
3 this arrangement is an appropriate use of the demand ratchet mechanism. However, Staff  
4 recommends that the demand ratchet be set on the preceding 11 months instead of 24 months to be  
5 consistent with TEP's other rate schedules.

6           19. The demand charge for Standby Service would be 1.5 times the applicable standard  
7 offer tariff demand charge with a minimum of \$11.25 per kW. For Maintenance Service the demand  
8 charge would be the demand charge using the otherwise applicable standard offer tariff, or \$7.50 per  
9 kW if none is specified in the standard offer tariff, times the maximum measured demand.

10           20. Staff notes that TEP's rate for purchasing energy from the QF under this proposed  
11 PRS tariff would be defined in a Service Agreement between the Company and the customer, with  
12 said Service Agreement subject to approval by the Commission. Staff believes this arrangement is  
13 appropriate.

14           21. Staff believes that the proposed PRS tariff Rider R-13 meets the requirements of the  
15 customer segment that is most likely to be interested in partial requirements service. Staff further  
16 believes that the proposed PRS tariff meets the requirements of Decision No. 73912.

#### 17 **Staff's Recommendations**

18           22. Staff has recommended that the proposed PRS tariff Rider R-13, as revised by TEP on  
19 January 20, 2015, be approved, except that the Supplemental Service demand ratchet should be based  
20 on the preceding 11 months.

#### 21 CONCLUSIONS OF LAW

22           1. Tucson Electric Power Company is an Arizona public service corporation within the  
23 meaning of Article XV, Section 2, of the Arizona constitution.

24           2. The Commission has jurisdiction over Tucson Electric Power Company and over the  
25 subject matter of the Application.

26           3. Tucson Electric Power Company's Application herein is in compliance with the  
27 Commission's order in Decision No. 73912 and the Application satisfies the requirements set forth in  
28 that order.

1           4.     The Commission, having reviewed Tucson Electric Power Company's Application and  
2 Staff's Memorandum dated January 30, 2015, finds that the Partial Requirements Service Tariff (Rider  
3 R-13) should be approved as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's Partial Requirements Service Tariff (Rider R-13) is approved as discussed herein.

IT IS FURTHER ORDERED that the Partial Requirements Service Tariff (Rider R-13) be effective immediately upon approval of the Commission.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall file a tariff in compliance with this Decision within 15 days of the effective date of the Decision.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO: RBL:sms RRM/